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TOWNSHIP OF ALABASTER
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2008

AUDITORS' REPORT

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June 24, 2008

Independent Auditors' Report

Members of the Township Board
Township of Alabaster
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Alabaster, Iosco County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, as listed in the index. These financial statements are the responsibility of the Township of Alabaster's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Alabaster, Iosco County, Michigan, as of March 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2008, on our consideration of the Township of Alabaster's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Alabaster's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

ALABASTER TOWNSHIP

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Township of Alabaster's (the Township) financial performance provides an overview of the Township's financial activities for the year ended March 31, 2008. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The discussion focuses on the Township's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Financial Highlights

- The Township's assets exceeded its liabilities by \$1,448,169.
- The Township's total net assets increased by \$5,201.
- The Township's governmental funds reported a combined ending fund balance of \$821,966 this year, an increase of \$17,138. Of this amount, \$821,966 is available for spending (*unreserved fund balance*) on behalf of its citizens. The Township's General Fund 2008 year end *fund balance* is \$131,637.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government except for its fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, all capital assets and infrastructure are listed for the Township of Alabaster. These assets are comprised of buildings, infrastructure and land owned by the Township. These assets total over \$600,000.

Fund Financial Statements

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund – This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Municipal Streets Fund – This fund accounts for the street operations of the Township. Revenues are derived primarily from a special voted tax for street improvements.
- Fire Fund – This fund accounts for tax revenues used for fire protection of the Township.
- Garbage Fund – This fund is used to account for tax revenue used for refuse collection in the Township.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following is the Township's major enterprise fund:

- Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Alabaster Township.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for taxes and fines and forfeitures collected and distributed to other political subdivisions.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents combining nonmajor fund statements.

Government-Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Township of Alabaster at March 31, 2008:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets	\$ 838,237	\$ 437,204	\$ 1,275,441
Capital Assets – net	116,743	425,167	541,910
Other Noncurrent Assets	<u>0</u>	<u>22,089</u>	<u>22,089</u>
Total Assets	<u>954,980</u>	<u>884,460</u>	<u>1,839,440</u>
Current Liabilities	16,271	25,000	41,271
Long-Term Liabilities	<u>0</u>	<u>350,000</u>	<u>350,000</u>
Total Liabilities	<u>16,271</u>	<u>375,000</u>	<u>391,271</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	116,743	72,256	188,999
Unrestricted	<u>821,966</u>	<u>437,204</u>	<u>1,259,170</u>
Total Net Assets	<u>\$ 938,709</u>	<u>\$ 509,460</u>	<u>\$ 1,448,169</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2008.

Generally speaking, the Township's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Township of Alabaster, through its governing body, i.e., Township Board of Trustees, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board of Trustees has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's practice, in general, to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues:			
Charges for Services	\$ 19,723	\$ 1,347	\$ 21,070
Operating Grants and Contributions	1,277	0	1,277
Capital Grants and Contributions	875	0	875
Total Program Revenues	<u>21,875</u>	<u>1,347</u>	<u>23,222</u>
General Revenues:			
Property Taxes	217,836	0	217,836
State Revenue Sharing	34,607	0	34,607
Investment Earnings and Miscellaneous	22,738	20,775	43,513
Total General Revenues	<u>275,181</u>	<u>20,775</u>	<u>295,956</u>
Total Revenues	<u>297,056</u>	<u>22,122</u>	<u>319,178</u>
Program Expenses:			
General Government	66,583	0	66,583
Public Safety	49,478	0	49,478
Public Works	153,918	0	153,918
Community and Economic Development	6,206	0	6,206
Recreation and Cultural	90	0	90
Other	3,252	0	3,252
Water Services	0	34,450	34,450
Total Program Expenses	<u>279,527</u>	<u>34,450</u>	<u>313,977</u>
Change in Net Assets	17,529	(12,328)	5,201
Beginning Net Assets	<u>921,180</u>	<u>521,788</u>	<u>1,442,968</u>
Ending Net Assets	<u>\$ 938,709</u>	<u>\$ 509,460</u>	<u>\$ 1,448,169</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$21,875 from *Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions*. The *Charges for Services* are fees mainly associated with the collection of property taxes, fines and forfeitures, and licenses & permits. Operating expenses totaled \$279,527 for these same activities. The largest expenses were incurred by General Government offices (\$66,583) and Public Works (\$153,918).

Business-Type Activities

The Township's main *Business-Type* activity is for Water Service. For the most part, Water revenues and expenditures reflected maintenance of the status quo as compared to past years.

Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue; 2) Municipal Streets Fund – This fund accounts for the street operations of the Township. The primary sources of revenue are from a special voted tax for street improvements; 3) Fire Fund – This fund represents the fire protection of the Township. Revenues are derived primarily from property taxes; and, 4) Garbage Fund – This fund accounts for the collection of refuse in the Township. Revenues are derived primarily from property taxes.

This year's Township audit, following GASB 34 format, shows 10 funds. The Township Treasurer maintains these funds as separate units in the General Ledger.

Enterprise Funds

The Township's enterprise fund provides the same type of information found in the government-wide financial statements. The Water Fund comprises this fund. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

Budgetary Highlights

General Fund Budgetary Highlights

The Township's budgets are prepared according to Michigan Law. The most significant budgeted funds are the General Fund, Municipal Streets Fund, Fire Fund, and the Garbage Fund.

During the fiscal year ended March 31, 2008 the Township Board amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

The Township's governmental funds reported a combined ending fund balance of \$821,966 this year, an increase of \$17,138. Of this amount, \$821,966 is available for spending (*unreserved fund balance*) on behalf of its citizens. The Township's General Fund 2008 year end *fund balance* is \$131,637.

The General Fund actual revenue was \$98,345. That amount is above both the original and final budget estimate of \$95,923. The variance between the actual revenue and the final budget was the result of increased revenues from various sources. Expenditures totaled \$86,685.

The Municipal Streets Fund actual revenue was \$72,561. That amount is above both the original and final budget estimate of \$66,572. The variance between the actual revenue and the final budget was the result of increased revenues from various sources. Expenditures totaled \$87,456.

The Fire Fund actual revenue was \$62,387. That amount is above both the original and final budget estimate of \$60,612. The variance between the actual revenue and the final budget was the result of increased revenues from various sources. Expenditures totaled \$49,478.

The Garbage Fund actual revenue was \$61,306. That amount is above both the original and final budget estimate of \$60,312. The variance between the actual revenue and the final budget was the result of increased revenues from various sources. Expenditures totaled \$54,893.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$126,977 with an ending balance of \$127,793. Governmental Activities Total Capital Assets – Net of Depreciation was \$116,743.

Capital Assets - Business Type Activities beginning and ending balance was \$500,831. Business-Type Activities Total Capital Assets – Net of Depreciation was \$425,167. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

Long-Term Debt

The Long-Term debt of the Township of Alabaster, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the Township Board of Trustees.

At year's end, long-term debt (due in more than one year) amounted to \$350,000. Such debt includes *Contracts Payable*.

Economic Factors

The Alabaster Township Board and management staff is working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for over half of the Township's General Fund revenues. Due to new construction and increased property values, the Township will be collecting more in property taxes in 2008/2009 than it did in 2007/2008.

Revenue sharing from the State of Michigan is the next largest revenue source for the Township and this source is beyond the control of the Township. Although revenue estimates for the State are beginning to rise slightly, the Township does not expect it to affect the 2008/2009 budget. Currently the budget anticipates the use of undesignated fund balance to cover any expenditures that exceed current year revenues.

The Board and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township of Alabaster, 1716 S. US 23, Tawas City, Michigan, 48763.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF NET ASSETS
March 31, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and Cash Equivalents (Note 2)	\$ 755,001	\$ 183,013	\$ 938,014
Investments (Note 2)	71,808	0	71,808
Receivables:			
Property Taxes	11,422	0	11,422
Special Assessments	0	254,191	254,191
Due from Fiduciary Funds (Note 3)	6	0	6
Noncurrent Assets:			
Bond Issuance Costs, Net (Note 1)	0	22,089	22,089
Capital Assets, Net (Note 4)	116,743	425,167	541,910
Total Assets	<u>954,980</u>	<u>884,460</u>	<u>1,839,440</u>
<u>Liabilities</u>			
Accounts Payable	1,064	0	1,064
Deferred Revenue	15,207	0	15,207
Long Term Liabilities: (Note 5)			
Due Within One Year	0	25,000	25,000
Due In More Than One Year	0	350,000	350,000
Total Liabilities	<u>16,271</u>	<u>375,000</u>	<u>391,271</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	116,743	72,256	188,999
Unrestricted	<u>821,966</u>	<u>437,204</u>	<u>1,259,170</u>
Total Net Assets	<u>\$ 938,709</u>	<u>\$ 509,460</u>	<u>\$ 1,448,169</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

<u>Function/Program</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Primary Government</u>							
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 17,041	\$ 0	\$ 0	\$ 0	\$ (17,041)	\$ 0	\$ (17,041)
Financial and Tax Administration	34,876	16,972	0	0	(17,904)	0	(17,904)
Other General Government	14,666	2,751	0	0	(11,915)	0	(11,915)
Public Safety:							
Fire	49,478	0	0	0	(49,478)	0	(49,478)
Public Works:							
Other Public Works	153,918	0	1,277	0	(152,641)	0	(152,641)
Community and Economic Development	6,206	0	0	0	(6,206)	0	(6,206)
Recreation and Cultural	90	0	0	875	785	0	785
Other	<u>3,252</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,252)</u>	<u>0</u>	<u>(3,252)</u>
Total Governmental Activities	<u>279,527</u>	<u>19,723</u>	<u>1,277</u>	<u>875</u>	<u>(257,652)</u>	<u>0</u>	<u>(257,652)</u>
Business-Type Activities:							
Water Services	<u>34,450</u>	<u>1,347</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(33,103)</u>	<u>(33,103)</u>
Total Primary Government	<u>\$ 313,977</u>	<u>\$ 21,070</u>	<u>\$ 1,277</u>	<u>\$ 875</u>	<u>(257,652)</u>	<u>(33,103)</u>	<u>(290,755)</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

Function/Program					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
General Revenue:							
Property Taxes Levied For:							
General Operating					\$ 38,622	\$ 0	\$ 38,622
Fire Protection					59,418	0	59,418
Roads					60,378	0	60,378
Refuse Collection					59,418	0	59,418
State Revenue Sharing					34,607	0	34,607
Interest and Investment Earnings					21,797	20,775	42,572
Other					941	0	941
Total General Revenue					<u>275,181</u>	<u>20,775</u>	<u>295,956</u>
Change in Net Assets					17,529	(12,328)	5,201
Net Assets - Beginning					<u>921,180</u>	<u>521,788</u>	<u>1,442,968</u>
Net Assets - Ending					<u>\$ 938,709</u>	<u>\$ 509,460</u>	<u>\$ 1,448,169</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2008

	<u>General Fund</u>	<u>Municipal Streets Fund</u>	<u>Fire Fund</u>	<u>Garbage Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and Cash Equivalents (Note 2)	\$ 89,992	\$ 370,184	\$ 145,391	\$ 126,125	\$ 23,309	\$ 755,001
Investments (Note 2)	39,664	30,511	965	614	54	71,808
Receivables:						
Property Taxes	2,223	3,099	3,050	3,050	0	11,422
Due from Other Funds (Note 3)	<u>6</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>
Total Assets	<u>\$ 131,885</u>	<u>\$ 403,794</u>	<u>\$ 149,406</u>	<u>\$ 129,789</u>	<u>\$ 23,363</u>	<u>\$ 838,237</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 248	\$ 0	\$ 0	\$ 0	\$ 816	\$ 1,064
Deferred Revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,207</u>	<u>15,207</u>
Total Liabilities	<u>248</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,023</u>	<u>16,271</u>
<u>Fund Equity</u>						
Fund Balances:						
Unreserved:						
Undesignated, Reported In:						
General Fund	131,637	0	0	0	0	131,637
Special Revenue Funds	<u>0</u>	<u>403,794</u>	<u>149,406</u>	<u>129,789</u>	<u>7,340</u>	<u>690,329</u>
Total Fund Equity	<u>131,637</u>	<u>403,794</u>	<u>149,406</u>	<u>129,789</u>	<u>7,340</u>	<u>821,966</u>
Total Liabilities and Fund Equity	<u>\$ 131,885</u>	<u>\$ 403,794</u>	<u>\$ 149,406</u>	<u>\$ 129,789</u>	<u>\$ 23,363</u>	<u>\$ 838,237</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
March 31, 2008

Total Governmental Fund Balances	\$	821,966
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

Capital Asset Cost	\$	127,793	
Accumulated Depreciation		<u>(11,050)</u>	
			<u>116,743</u>

Total Net Assets - Governmental Activities	\$	<u><u>938,709</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2008

	General Fund	Municipal Streets Fund	Fire Fund	Garbage Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>						
Property Taxes	\$ 55,594	\$ 60,378	\$ 59,418	\$ 59,418	\$ 0	\$ 234,808
State Grants and Revenue	35,884	0	0	0	816	36,700
Licenses and Permits	1,751	0	0	0	0	1,751
Charges for Services	0	0	0	0	1,000	1,000
Interest and Rentals	4,175	12,183	2,969	1,888	582	21,797
Other Revenue	941	0	0	0	59	1,000
Total Revenue	<u>98,345</u>	<u>72,561</u>	<u>62,387</u>	<u>61,306</u>	<u>2,457</u>	<u>297,056</u>
<u>Expenditures</u>						
Current:						
General Government:						
Legislative	6,916	0	0	0	0	6,916
Chief Executive	10,125	0	0	0	0	10,125
Financial and Tax						
Administration	34,876	0	0	0	0	34,876
Other General Government	13,741	0	0	0	500	14,241
Public Safety	0	0	49,478	0	0	49,478
Public Works	11,569	87,456	0	54,893	0	153,918
Community and Economic						
Development	6,206	0	0	0	0	6,206
Recreation and Cultural	0	0	0	0	90	90
Other	3,252	0	0	0	0	3,252
Capital Outlay	0	0	0	0	816	816
Total Expenditures	<u>86,685</u>	<u>87,456</u>	<u>49,478</u>	<u>54,893</u>	<u>1,406</u>	<u>279,918</u>
Excess of Revenue Over (Under)						
Expenditures	11,660	(14,895)	12,909	6,413	1,051	17,138
Fund Balances - Beginning of Year	<u>119,977</u>	<u>418,689</u>	<u>136,497</u>	<u>123,376</u>	<u>6,289</u>	<u>804,828</u>
Fund Balances - End of Year	<u>\$ 131,637</u>	<u>\$ 403,794</u>	<u>\$ 149,406</u>	<u>\$ 129,789</u>	<u>\$ 7,340</u>	<u>\$ 821,966</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 17,138
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	\$ 816	
Current Year Depreciation Expense	<u>(425)</u>	
Net difference		<u>391</u>

Change in Net Assets of Governmental Activities	<u>\$ 17,529</u>
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The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUND
March 31, 2008

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents (Note 2)	\$ 183,013
Receivables:	
Special Assessments	<u>254,191</u>
Total Current Assets	<u>437,204</u>
Noncurrent Assets:	
Bond Issuance Costs, Net (Note 1)	22,089
Capital Assets, Net (Note 4)	<u>425,167</u>
Total Noncurrent Assets	<u>447,256</u>
Total Assets	<u>884,460</u>
<u>Liabilities</u>	
Current Liabilities:	
Current Portion of Long-Term Liabilities (Note 5)	25,000
Long-Term Liabilities:	
Due in More Than One Year (Note 5)	<u>350,000</u>
Total Liabilities	<u>375,000</u>
<u>Net Assets</u>	
Invested In Capital Assets, Net of Related Debt	72,256
Unrestricted	<u>437,204</u>
Total Net Assets	<u>\$ 509,460</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended March 31, 2008

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
<u>Operating Revenue</u>	
Charges For Services	\$ <u>1,347</u>
<u>Operating Expenses</u>	
Depreciation	10,017
Utilities	96
Other	<u>328</u>
Total Operating Expenses	<u>10,441</u>
Operating Income (Loss)	<u>(9,094)</u>
<u>Nonoperating Revenue (Expenses)</u>	
Interest and Investment Earnings	20,775
Interest and Fees Expense	(22,218)
Amortization of Bond Costs	<u>(1,791)</u>
Total Nonoperating Revenue (Expenses)	<u>(3,234)</u>
Change in Net Assets	(12,328)
Net Assets - Beginning of Year	<u>521,788</u>
Net Assets - End of Year	\$ <u><u>509,460</u></u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
For the Year Ended March 31, 2008

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
<u>Cash Flows From Operating Activities</u>	
Receipts From Customers	\$ 1,347
Payments for Operating Expenses	<u>(432)</u>
Net Cash Provided by Operating Activities	<u>915</u>
 <u>Cash Flows From Capital and Related Financing Activities</u>	
Special Assessments Received	24,975
Interest Received on Special Assessments	18,631
Principal Paid on Long-Term Debt	(25,000)
Interest and Fees Paid on Long-Term Debt	<u>(22,218)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(3,612)</u>
 <u>Cash Flows From Investing Activities</u>	
Interest on Investments	<u>2,144</u>
 Net Decrease in Cash and Cash Equivalents	(553)
 Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>183,566</u>
 Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 183,013</u>
 <u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</u>	
Operating Loss	\$ (9,094)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	10,017
Change in Assets and Liabilities:	
Accounts Payable	<u>(8)</u>
 Net Cash Provided by Operating Activities	<u>\$ 915</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
March 31, 2008

	<u>Current Tax Collection Fund</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents (Note 2)	\$ <u>6</u>	\$ <u>358</u>	\$ <u>364</u>
<u>LIABILITIES</u>			
Due to State	\$ 0	\$ 358	\$ 358
Due to Other Funds (Note 3)	<u>6</u>	<u>0</u>	<u>6</u>
Total Liabilities	\$ <u>6</u>	\$ <u>358</u>	\$ <u>364</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Alabaster (Township) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Township Operations and Fund Types

Alabaster Township is located in Iosco County and operates under an elected Township Board (five members) and provides services to its residents in many areas including fire protection, street lighting, refuse collection and improvement of local streets. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Township are not misleading. The primary government of the Township consists of all funds, departments, boards, and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs of services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Township is obligated for the debt of the organization. Component units may also include organizations for which the Township approves the budget, the issuance of debt, or the levying of taxes. The Township does not have any component units.

C. Joint Venture

The Township has entered into a joint venture with various municipalities described as follows:

Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The Township of Alabaster's contribution for the year ended March 31, 2008 was \$0. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue.

Municipal Streets Fund – This fund is used to account for the street operations of the Township. Revenues are derived primarily from a special voted tax for street improvements.

Fire Fund – This fund accounts for tax revenues used for fire protection of the Township.

Garbage Fund – This fund is used to account for tax revenue used for refuse collection in the Township.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose, and the acquisition or construction of major capital facilities.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the Township's major enterprise fund:

Water Fund - This fund accounts for fees collected for water services provided by the Township.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for others. The Township uses these funds to account for current tax collections and processing payroll.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Township are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), interest, grants and rent.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables at March 31, 2008, consist of accounts (fees), taxes, and special assessments. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at March 31, 2008 was \$0.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances due from/to fiduciary funds are also reported on the government-wide statement of net assets.

K. Bond Issuance Costs

On the government-wide and proprietary fund financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township's infrastructure consists of water lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Land Improvements	10-20 years
Machinery and Equipment	5-10 years
Vehicles	5-10 years
Utility Systems	25-40 years
Infrastructures	20-40 years

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are charges for services for water usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended March 31, 2008.

R. Budgets and Budgetary Accounting

The Township of Alabaster normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to March 1, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Township Board throughout the operating year.

The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

The legal level of control is at the functional level for the General Fund and Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Township Board. The financial statements include budgetary amounts as amended.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

T. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 755,001	\$ 183,013	\$ 364	\$ 938,378
Investments	<u>71,808</u>	<u>0</u>	<u>0</u>	<u>71,808</u>
Total	<u>\$ 826,809</u>	<u>\$ 183,013</u>	<u>\$ 364</u>	<u>\$ 1,010,186</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 1,010,036
Petty Cash and Cash on Hand	<u>150</u>
Total	<u>\$ 1,010,186</u>

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, \$498,583 of the Township's bank balance of \$1,013,101 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Township's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- Accounts of federally insured banks, credit unions and savings and loan associations
- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- United States government or federal agency obligation repurchase agreements
- Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 6	\$ 0
Fiduciary Funds	<u>0</u>	<u>6</u>
	<u>\$ 6</u>	<u>\$ 6</u>

The amounts of interfund receivables and payables for individual funds as of March 31, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	<u>\$ 6</u>	Current Tax Collection Fund	<u>\$ 6</u>

These balances result from the time lag between the dates that fiduciary funds collect property taxes and the dates payments are made to the governmental funds.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended March 31, 2008, was as follows:

	Balance 04/01/07	Additions	Deletions	Balance 03/31/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,000	\$ 0	\$ 0	\$ 1,000
Construction in Progress	108,977	816	0	109,793
Subtotal	<u>109,977</u>	<u>816</u>	<u>0</u>	<u>110,793</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	17,000	0	0	17,000
Less Accumulated Depreciation for:				
Buildings and Improvements	<u>(10,625)</u>	<u>(425)</u>	<u>0</u>	<u>(11,050)</u>
Capital Assets Being Depreciated	<u>6,375</u>	<u>(425)</u>	<u>0</u>	<u>5,950</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 116,352</u>	<u>\$ 391</u>	<u>\$ 0</u>	<u>\$ 116,743</u>
	Balance 04/01/07	Additions	Deletions	Balance 03/31/08
<u>Business-Type Activities</u>				
Capital Assets Being Depreciated:				
Plant and Equipment	\$ 500,831	\$ 0	\$ 0	\$ 500,831
Less Accumulated Depreciation for:				
Plant and Equipment	<u>(65,647)</u>	<u>(10,017)</u>	<u>0</u>	<u>(75,664)</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 435,184</u>	<u>\$ (10,017)</u>	<u>\$ 0</u>	<u>\$ 425,167</u>

Depreciation expense was charged to programs of the primary government as follows:

<u>Governmental Activities</u>	
General Government:	
Other General Government	\$ <u>425</u>
<u>Business-Type Activities</u>	
Water	\$ <u>10,017</u>

NOTE 5 - LONG-TERM LIABILITIES

A. Contracts Payable

Business-Type

Joint water supply system agreement with the County of Iosco, dated August 1, 2000, due in annual installments through May 1, 2020, bearing interest at the rates of 5.05% to 6.25% to finance the cost of providing water service to the Cedar Haven Subdivision neighborhood, located within Section 34 and 35 of Alabaster Township.

\$ 375,000

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

B. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Township for the year ended March 31, 2008:

	<u>Balance</u> <u>04/01/07</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>03/31/08</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Contracts Payable	\$ <u>400,000</u>	\$ <u>0</u>	\$ <u>(25,000)</u>	\$ <u>375,000</u>	\$ <u>25,000</u>
Contracts Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 0	\$ 0	\$ 25,000	\$ 20,656	\$ 45,656
2010	0	0	25,000	19,363	44,363
2011	0	0	25,000	18,056	43,056
2012	0	0	30,000	16,598	46,598
2013	0	0	30,000	14,978	44,978
2014 - 2018	0	0	150,000	49,537	199,537
2019 - 2021	0	0	90,000	8,362	98,362
Total	\$ <u>0</u>	\$ <u>0</u>	\$ <u>375,000</u>	\$ <u>147,550</u>	\$ <u>522,550</u>

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 1 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the Township was \$48,241,441. The tax rates were .7335 mills for operations, 1.2250 for fire protection, 1.2250 for refuse collection, and 1.2448 for roads.

NOTE 7 - RETIREMENT PLAN

The Township has a defined contribution pension plan with John Hancock effective 1991. All full-time employees are covered under the plan. Eligibility to become a participant is limited to Township board members. Vesting is 100% upon entering the plan. Each employee must contribute 6.0% of their gross earnings to the plan. The Township is required to contribute an amount equal to 6.0% of the employee's gross earnings. Plan participants may make voluntary after-tax contributions, through payroll withholding, in amounts ranging from 1% to 10% of compensation.

During the year, the Township's required and actual contributions amounted to \$2,265, which was 6% of its current-year payroll. Employee's contributions amounted to \$2,424. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 8 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. Accrued unemployment compensation was \$0 as of March 31, 2008.

NOTE 9 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries. The Township has purchased commercial insurance for general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 54,759	\$ 54,759	\$ 55,594	\$ 835
State Grants and Revenue	35,516	35,516	35,884	368
Licenses and Permits	1,000	1,000	1,751	751
Interest and Rentals	3,000	3,000	4,175	1,175
Other Revenue	<u>1,648</u>	<u>1,648</u>	<u>941</u>	<u>(707)</u>
Total Revenue	<u>95,923</u>	<u>95,923</u>	<u>98,345</u>	<u>2,422</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	7,440	7,640	6,916	724
Chief Executive	10,330	10,330	10,125	205
Financial and Tax Administration	38,682	38,682	34,876	3,806
Other General Government	22,357	22,157	13,741	8,416
Public Works	6,500	11,811	11,569	242
Community and Economic Development	7,114	7,114	6,206	908
Other	<u>3,500</u>	<u>3,500</u>	<u>3,252</u>	<u>248</u>
Total Expenditures	<u>95,923</u>	<u>101,234</u>	<u>86,685</u>	<u>14,549</u>
Excess of Revenue Over (Under) Expenditures	0	(5,311)	11,660	16,971
Fund Balances - Beginning of Year	<u>119,977</u>	<u>119,977</u>	<u>119,977</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 119,977</u>	<u>\$ 114,666</u>	<u>\$ 131,637</u>	<u>\$ 16,971</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 MUNICIPAL STREETS FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 60,072	\$ 60,072	\$ 60,378	\$ 306
Interest and Rentals	<u>6,500</u>	<u>6,500</u>	<u>12,183</u>	<u>5,683</u>
Total Revenue	66,572	66,572	72,561	5,989
<u>Expenditures</u>				
Current:				
Public Works	<u>150,000</u>	<u>150,000</u>	<u>87,456</u>	<u>62,544</u>
Excess of Revenue Over (Under) Expenditures	(83,428)	(83,428)	(14,895)	68,533
Fund Balances - Beginning of Year	<u>418,689</u>	<u>418,689</u>	<u>418,689</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 335,261</u>	<u>\$ 335,261</u>	<u>\$ 403,794</u>	<u>\$ 68,533</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FIRE FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 59,112	\$ 59,112	\$ 59,418	\$ 306
Interest and Rentals	<u>1,500</u>	<u>1,500</u>	<u>2,969</u>	<u>1,469</u>
Total Revenue	60,612	60,612	62,387	1,775
<u>Expenditures</u>				
Current:				
Public Safety	<u>60,612</u>	<u>60,612</u>	<u>49,478</u>	<u>11,134</u>
Excess of Revenue Over (Under) Expenditures	0	0	12,909	12,909
Fund Balances - Beginning of Year	<u>136,497</u>	<u>136,497</u>	<u>136,497</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 136,497</u>	<u>\$ 136,497</u>	<u>\$ 149,406</u>	<u>\$ 12,909</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GARBAGE FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 59,112	\$ 59,112	\$ 59,418	\$ 306
Interest and Rentals	<u>1,200</u>	<u>1,200</u>	<u>1,888</u>	<u>688</u>
Total Revenue	60,312	60,312	61,306	994
<u>Expenditures</u>				
Current:				
Public Works	<u>60,312</u>	<u>60,312</u>	<u>54,893</u>	<u>5,419</u>
Excess of Revenue Over (Under) Expenditures	0	0	6,413	6,413
Fund Balances - Beginning of Year	<u>123,376</u>	<u>123,376</u>	<u>123,376</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 123,376</u>	<u>\$ 123,376</u>	<u>\$ 129,789</u>	<u>\$ 6,413</u>

OTHER INFORMATION

TOWNSHIP OF ALABASTER
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
March 31, 2008

	<u>Cemetery Fund</u>	<u>Capital Improvement Fund</u>	<u>Bike Path Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,406	\$ 844	\$ 21,059	\$ 23,309
Investments	<u>30</u>	<u>24</u>	<u>0</u>	<u>54</u>
Total Assets	<u>\$ 1,436</u>	<u>\$ 868</u>	<u>\$ 21,059</u>	<u>\$ 23,363</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 0	\$ 0	\$ 816	\$ 816
Deferred Revenue	<u>0</u>	<u>0</u>	<u>15,207</u>	<u>15,207</u>
Total Liabilities	0	0	16,023	16,023
<u>Fund Equity</u>				
Fund Balances:				
Unreserved:				
Undesignated, Reported In:				
Special Revenue Funds	<u>1,436</u>	<u>868</u>	<u>5,036</u>	<u>7,340</u>
Total Liabilities and Fund Equity	<u>\$ 1,436</u>	<u>\$ 868</u>	<u>\$ 21,059</u>	<u>\$ 23,363</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended March 31, 2008

	<u>Cemetery Fund</u>	<u>Capital Improvement Fund</u>	<u>Bike Path Fund</u>	<u>Total Other Governmental Funds</u>
<u>Revenue</u>				
State Grants and Revenue	\$ 0	\$ 0	\$ 816	\$ 816
Charges for Services	1,000	0	0	1,000
Interest and Rentals	93	73	416	582
Other Revenue	<u>0</u>	<u>0</u>	<u>59</u>	<u>59</u>
Total Revenue	<u>1,093</u>	<u>73</u>	<u>1,291</u>	<u>2,457</u>
<u>Expenditures</u>				
Current:				
General Government:				
Other General Government	500	0	0	500
Recreation and Cultural	0	0	90	90
Capital Outlay	<u>0</u>	<u>0</u>	<u>816</u>	<u>816</u>
Total Expenditures	<u>500</u>	<u>0</u>	<u>906</u>	<u>1,406</u>
Excess of Revenue Over (Under) Expenditures	593	73	385	1,051
Fund Balances - Beginning of Year	<u>843</u>	<u>795</u>	<u>4,651</u>	<u>6,289</u>
Fund Balances - End of Year	<u>\$ 1,436</u>	<u>\$ 868</u>	<u>\$ 5,036</u>	<u>\$ 7,340</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Herman A. Bertuleit

June 24, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board
Township of Alabaster
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Alabaster, Iosco County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township of Alabaster's basic financial statements and have issued our report thereon dated June 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Alabaster's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Alabaster's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Alabaster's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Alabaster's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Alabaster's financial statements that is more than inconsequential will not be prevented or detected by the Township of Alabaster's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Township Board Reports

The Township Board was not provided with quarterly financial reports as required by the State of Michigan Accounting Manual. We recommend that the Township Clerk provide at least quarterly reports to the Township Board, for each fund, that include a balance sheet and profit and loss statements with a budget to actual presentation. These reports will be useful in controlling the budget as well as making other necessary financial decisions.

Members of the Township Board
Township of Alabaster
June 24, 2008

Financial Statement Preparation

The Township of Alabaster prepares various financial information throughout the year to assess operations and the financial condition of the Township. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Township relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Township of Alabaster has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Township is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Township would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Alabaster's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Alabaster's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the Township of Alabaster in a separate letter dated June 24, 2008.

View of Responsible Officials and Planned Corrective Actions:

Township Board Reports

The Township Clerk, with assistance from the Township Supervisor, will develop and present financial reports to the Township Board on at least a quarterly basis. These reports will be produced from the current financial software package specifically designed for Governmental units based on the reconciled general ledger activity.

Financial Statement Preparation

The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The Township of Alabaster's response to the findings identified in our audit is described above. We did not audit the Township of Alabaster's response and, accordingly, we express no opinion on it.

Members of the Township Board
Township of Alabaster
June 24, 2008

This report is intended solely for the information and use of management, the Members of the Township Board, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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Herman A. Bertuleit

June 24, 2008

Members of the Township Board
Township of Alabaster
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Alabaster for the year ended March 31, 2008, and have issued our report thereon dated June 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated March 06, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Township of Alabaster. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township of Alabaster's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 27, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Alabaster are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Township of Alabaster for the year ended March 31, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendations for consideration.

Township Board Reports

The Township Board was not provided with quarterly financial reports as required by the State of Michigan Accounting Manual. We recommend that the Township Clerk provide at least quarterly reports to the Township Board, for each fund, that include a balance sheet and profit and loss statements with a budget to actual presentation. These reports will be useful in controlling the budget as well as making other necessary financial decisions.

Financial Statement Preparation

The Township of Alabaster prepares various financial information throughout the year to assess operations and the financial condition of the Township. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Township relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Township of Alabaster has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Township is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Township would not be in a position to detect the errors or omissions.

Cash Receipts

We reviewed various cash receipts to verify the proper supporting documentation. All receipts tested did not have a breakdown of cash versus checks on the individual receipt. We advised Jeanne Lutes to make sure she begins to put this breakdown on the receipts as required by the State of Michigan Accounting Procedures Manual for Local Units of Government in Michigan.

Chart of Accounts

We reviewed the chart of accounts for compliance with the Uniform Chart of Accounts issued by the Department of Treasury. The chart of accounts is substantially in compliance. However, there are certain accounts that are not in compliance. We will give the Township a current Chart of Accounts so they can make any changes necessary.

Investment Policy

The Township's investment policy had not been updated for Governmental Accounting Standards (GASB Statements) No. 40 - Deposit and Investment Risk Disclosures. We recommend that the Township update their investment policy to comply with GASB No. 40.

Members of the Township Board
Township of Alabaster
June 24, 2008
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We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of Township of Alabaster.

This information is intended solely for the use of management, the Members of the Township Board, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.